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## Fitch Comments on Status of Municipal Ratings Framework Review

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U.S. municipal finance issuers continue to be severely impacted by the combination of a deteriorating macro-economic environment, increasing fiscal pressures, and market access and liquidity constraints. Therefore, Fitch is continuing the suspension of its review of its U.S. municipal ratings framework.

On July 31, 2008 Fitch released a research report, 'Exposure Draft: Reassessment of the Municipal Ratings Framework', that summarized Fitch's perspectives in rating municipal obligations. The exposure draft compared and contrasted historical patterns of default and identified credit variables that Fitch considers in determining its forward-looking opinions of relative credit risk. Fitch also sought market comment on its proposal to recalibrate its ratings in the municipal tax-backed and water/sewer sectors based on expectations of the relative creditworthiness of these compared to other credit sectors.

On Oct. 7, 2008 Fitch announced that due to the extraordinary turmoil in the global financial markets and its impact on the credit quality of U.S. municipal issuers it would defer final determination and revisit the recalibration in first quarter-2009.

The severity of the current economic downturn and market disruptions, and the financial challenges these conditions pose to municipal issuers, continue to exceed Fitch's expectations when Fitch published its exposure draft last summer. Fitch expects continued credit volatility in all sectors, including municipals. The more severe economic conditions include steep declines in employment, consumer spending, and tax revenues, as well as a deepening deterioration in residential and commercial real estate values. Dislocations in the credit markets continue to make borrowing more costly, and while market access has eased somewhat for highly-rated municipal issuers, it remains challenging for lesser-rated credits. This places a strain on those issuers that require borrowing to fund cash flow needs or budget shortfalls, refinance maturing bond anticipation notes, or restructure costly variable-rate debt.

The recently enacted federal stimulus package is expected to provide some short-term budget relief to states and help avoid state education reductions to local governments. It also includes other actions to stabilize the economy. However, the efficacy of these measures remains uncertain.

Over the near- to intermediate term, Fitch will continue to focus its efforts on maintaining appropriate municipal ratings within the existing ratings construct. After economic and market conditions sufficiently stabilize, Fitch will review its municipal ratings framework to determine whether a recalibration is still called for, and if so, any adjustments needed to the recalibrations proposed in the exposure draft, or if the then current municipal ratings appropriately reflect relative credit risks.

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